

SENATE FINANCE COMMITTEE

January 29, 2021

9:01 a.m.

[9:01:48 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Natasha von Imhof
Senator Bill Wielechowski

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

SUMMARY

^OFFICE OF MANAGEMENT and BUDGET - GOVERNOR'S FY22 BUDGET PROPOSAL

[9:04:37 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, discussed the presentation, "State of Alaska, Office of Management and Budget, FY2022 Senate Finance Overview" (copy on file). He looked at slide 2, "Historical Savings Balances." He spoke to the fiscal situation that developed over the last decade.

Senator von Imhof surmised that 2019 was nearly equal to the 2022 estimate. She noted that it was a relatively balanced budget. She felt that it was a good start.

Co-Chair Stedman queried the formula used to calculate the proposed Permanent Fund Dividend (PFD).

Mr. Steininger replied that the current statutory formula was used to determine the PFD, with a draw of slightly over \$2 billion or a \$3000 PFD per person.

Co-Chair Stedman wondered whether there was a reflection of any ad hoc draws or overdraws of the 5 percent [percent of market value (POMV)].

Mr. Steininger replied in the affirmative. He stated that there was a proposed one-time additional draw from the ERA in order to cover the dividend payment.

Co-Chair Stedman queried the amount of the additional draw.

Mr. Steininger replied that it was roughly \$2 billion.

Co-Chair Stedman remarked that there were conflicting statutes. He explained that one statute had the dividend calculation, which had been in place for nearly 40 years. He added that there was another statute, which capped the draw on the ERA. He remarked that one of those two statutes needed to be breached in order to meet the proposal.

Mr. Steininger replied that there were two conflicting statutes. He stated that there were not other reserves to allow to work through that conflict.

[9:10:51 AM](#)

Senator von Imhof wondered how the statutes were differentiated as far as decided which ones to disregard and which ones to follow.

Mr. Steininger replied that the question might be better for the governor. He explained that the administration's position on the Permanent Fund was to follow the statute until the statute might change, which is why there was a proposed statutory change and constitutional amendment.

Senator Wielechowski queried the following year's projection.

Mr. Steininger replied that there would be a slide depicting the first five years of the projection. He

remarked that the scope of the fiscal problem could not be solved with a single proposal.

Co-Chair Stedman remarked that there would be a consideration of the Permanent Fund consultants' recommendations.

[9:14:37 AM](#)

Mr. Steininger addressed slide 3, "Elements of Fiscal Package":

Operating Budget Reductions

Fast Track Supplemental Budget

Utilize Bonding for Capital

- \$59 million UGF leverages \$1.4 billion total capital spending with use of \$101 million AHFC bond financing
- Approximately \$350 million general obligation bond package for shovel-ready critical infrastructure investment to jumpstart economy

Constitutional Amendments

- Set framework for a path to fiscal stability
- Statutory PFD change to compliment constitutional amendment

Co-Chair Stedman asked for an explanation of "fast track supplemental."

Mr. Steininger replied that it was a supplemental budget introduced earlier than the normal statutory deadline.

Co-Chair Stedman remarked that the supplemental budget would be addressed in the committee at a future date, and remarked that some of the items might need a sooner effective date.

[9:20:07 AM](#)

Co-Chair Bishop wondered when the administration would provide the cost of the bonds from AHFC.

Mr. Steininger replied that the proposal was approximately \$64,000 per million dollars issued.

Co-Chair Stedman remarked that there would be a review of the state's debt position.

Senator von Imhof queried the pay back plan for the bonds.

Mr. Steininger deferred to the state's debt manager.

Co-Chair Stedman remarked that there would be discussions about the cash flow to the state.

Senator Hoffman looked at the Permanent Fund Dividend (PFD). He queried the amount of the proposed early payment of the PFD.

Mr. Steininger replied that it was roughly \$1900 per person, which was approximately \$1.2 billion that would be draw from the ERA.

9:25:22 AM

Senator Hoffman wondered whether the administration was considering including a formula in the constitutional amendment proposal, and also asked about the parameters of the constitutional amendment.

Mr. Steininger replied that the PFD constitutional amendment would cover the POMV draw.

Senator Hoffman wondered whether the 2022 PFD would be the amount calculated by the proposed statutory change.

Mr. Steininger replied that the current proposal followed the current statute. He stated that a statutory change effectiveness in the PFD would be dependent on the bill passage and amendment.

Senator Hoffman wondered how much the PFD would be under the current formula and formula change.

Mr. Steininger replied that the current formula would be approximately \$3000, and agreed to provide that information about the formula change.

Senator Hoffman asked for the amount of the total draw for the PFD and for the change.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman wondered whether the administration viewed the 5 percent POMV as the standard general fund appropriation process.

Mr. Steininger agreed.

[9:30:04 AM](#)

Senator Wielechowski queried the UGF goal number for the administration.

Mr. Steininger replied that, in the ten-year plan, there was an approximate additional \$150 million budget reduction goal. He stressed that there were no specifics around that goal, as there would be ongoing changes in state operations.

Senator Wielechowski recalled a projection of \$1 billion in additional revenue, and wondered whether the governor supported additional revenue and the source of that revenue.

Co-Chair Stedman felt that some questions could be deferred to later in the presentation.

Mr. Steininger highlighted slide 4, "Fiscal Summary." He shared that the slide showed a high level picture of the state's operating budget.

[9:36:42 AM](#)

Co-Chair Stedman felt that adding the adjustments of one-time uses would change the fiscal summary.

Senator von Imhof remarked that the FY 21 fiscal cycle was being "muddled" with CARES Act funds. She wanted to ensure that the one-time money was properly matched with one-time expenses.

Mr. Steininger agreed.

Senator von Imhof surmised that the governor's statutory dividend proposal resulted in a \$2 billion draw, which resulted in a \$2 billion deficit.

Mr. Steininger agreed.

9:40:00 AM

Senator von Imhof stressed that there was not necessarily a "fiscal crisis" rather more of a "priority crisis."

Co-Chair Stedman noted that there might be an additional surplus coming from the federal government, which would affect the fiscal conversations.

Mr. Steininger looked at slide 5, "FY 2022 Projected Draws." He explained the details of the slide. He noted the impact of the prior year's deficit draw.

Co-Chair Stedman remarked that the draw issue on the permanent fund continued to be "repackaged." He explained that there would be meetings that detailed more of the fiscal items.

Senator Hoffman stressed that the three-quarter vote to access the CBR caused substantial problems, and wondered whether the \$40 million would warrant the consideration of using the CBR in FY 22.

Co-Chair Stedman agreed that the legislature would be "held for ransom" for the \$39 million. He stressed that the goal was to minimize expenditures in the operating budget.

9:46:43 AM

Mr. Steininger addressed slide 6, "Five-Year Fiscal Outlook." He shared that the slide showed all the fiscal impacts that he had discussed in the previous slides.

Co-Chair Stedman remarked that FY 23 showed substantially less than a 5 percent draw. He wondered why all the revenue was not included in the revenue line.

Mr. Steininger replied that it reflected the proposal to split the POMV draw 50 percent to government and 50 percent dividends.

Co-Chair Stedman requested a slide that showed the current statutes, because the slide assumed changes that may or may not occur.

9:50:45 AM

Senator Wielechowski noted that there would be a \$1.2 billion deficit going forward. He queried the appropriate time to deal with the deficit.

Mr. Steininger replied that discussions needed to occur momentarily, however the proposals were to address the issue of the PFD.

Senator Hoffman felt that resolving the dividend and resolving the deficit were each paramount to the state.

Co-Chair Bishop queried the administration's inflation factor in the out years.

Mr. Steininger replied that he believed it was 2.25 percent.

Co-Chair Stedman asked that the table reflect current statutes.

[9:55:39 AM](#)

Mr. Steininger discussed slide 7, "State of Alaska Operating Budget":

FY2022 Operating Budget Highlights:

- Organizational changes for service delivery
- Utilization of COVID relief
- Process changes from telework resulting in savings
- Continued constraint on operational costs

Co-Chair Stedman wondered whether the slide referred to the agencies.

Mr. Steininger replied in the affirmative.

Senator von Imhof confirmed that the slide referred to expenditures.

Mr. Steininger agreed.

Senator von Imhof remarked that the PFD was not included consistently in the "overall expenditures." She felt that overall spending should reflect the capital expenditures and PFD.

Co-Chair Stedman asked that the numbers be clarified and detailed in UGF.

Co-Chair Bishop assumed that the university cuts were included within the numbers.

Co-Chair Stedman asked that the information be delivered later to the committee.

[10:05:51 AM](#)

Mr. Steininger pointed to slide 8, "Budget Cost Drivers":

- From FY2019 to FY2022
 - State assistance to retirement has increased \$43.3 million
 - Employee salary adjustments for cost of living and health insurance have increased \$50.0 million
 - Public protection services including law enforcement, prosecution, defense, courts, and corrections have required investment of \$52.8 million
- \$146.1 million in UGF reductions to maintain a flat budget

Co-Chair Bishop remarked that the ERA overdraw proposal should be included as "lost revenue."

Co-Chair Stedman asked for comment on "opportunity cost reflection."

Mr. Steininger remarked that the draw was included in the five-year reduction in POMV income.

Co-Chair Stedman queried the financial loss in perpetuity to the permanent fund as a result of the ad hoc draw.

Mr. Steininger looked at slide 9, "FY22 Department UGF Budgets." He stated that the slide examined the components of the traditional operating budget.

[10:10:25 AM](#)

Co-Chair Stedman requested a three-year target dollar amount.

Senator von Imhof hoped that there would be new graphs with the proposed PFD.

Co-Chair Stedman remarked that there would be other tools to solve the structural deficit.

Senator Wielechowski felt that there were other ways to solve the deficit than "taking the dividend." He stressed that the Texas company operating in Prudhoe Bay was paying zero corporate income tax, and a negative overall corporate income tax.

[10:15:33 AM](#)

Co-Chair Stedman felt that the issue would be addressed at a later time.

Mr. Steininger highlighted slide 10, "Administration":

FY2022 Significant Budget Changes:

- Office of Information Technology: State Microsoft license change (-1,250.0 Other)
- Close 6 DMV offices (-582.5 DGF, -4 full time -2 part time PCNs)
- Transfer public building facility management and lease administration to Department of Transportation
- Consolidate procurement activity under the Office of Procurement and Property Management
- Adjust central service budgets to reflect approved billings (-16,904.0 Other)

[10:20:14 AM](#)

Co-Chair Stedman wondered why the issue was addressed in previous years.

Mr. Steininger replied that they were considered duplicated funds in the budget.

Senator Hoffman queried the Division of Motor Vehicles (DMV) offices that would be closed according to the governor's proposal.

Mr. Steininger replied that the six offices were Eagle River, Tok, Delta Junction, Homer, Haines, and Kodiak.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

[10:24:51 AM](#)

The meeting was adjourned at 10:24 a.m.